

Message Text

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PAGE 01 KUALA 04412 040818Z

14

ACTION EA-14

INFO OCT-01 ISO-00 EB-11 COME-00 TRSE-00 SCEM-02 SCI-06

CIAE-00 DODE-00 INR-10 NSAE-00 PA-03 RSC-01 USIA-15

PRS-01 SPC-03 INT-08 OMB-01 AID-20 L-03 IO-15 SS-15

NSC-10 FPC-01 STR-08 CIEP-02 DRC-01 /151 W

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R 040709Z OCT 73

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 5392

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SAIGON

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE KUALA LUMPUR 4412

E.O. 11652: N/A

TAGS: ENRG, MY

SUBJECT: PETROLEUM--SHELL SIGNS PRODUCTION SHARING AGREEMENT

REF: A-173, SEPT. 24, 1973

1. SUMMARY: GOM, SABAH STATE GOVERNMENT, AND SABAH SHELL SIGN OIL PRODUCTION SHARING AGREEMENT. REPRESENTS FOURTH PRODUCTION SHARING AGREEMENT WITH OIL CONCESSIONAIRES (TOTAL OF EIGHT OIL CONCESSIONAIRES IN MALAYSIA) THIS YEAR, AND FIRST TIME A STATE GOVERNMENT PARTICIPATED IN AGREEMENT. EMBASSY OBSERVES THAT NEGOTIATIONS PROTRACTED AND CHARACTERIZED BY TOUGH AND, AT TIMES, ACRIMONIOUS BARGAINING BOTH SIDES. ESSO ONLY MAJOR CONCESSIONAIRE NOT YET SIGNED NEW PRODUCTION SHARING AGREEMENT. END SUMMARY.

2. "STRAITS TIMES" ARTICLE DATED OCT. 4 REPORTS OIL PRODUCTION SHARING AGREEMENT SIGNED BY GOM, SABAH GOVERNMENT, LIMITED OFFICIAL USE

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PAGE 02 KUALA 04412 040818Z

AND SABAH SHELL. REPRESENTS FIRST TIME STATE GOVERNMENT

HAS PARTICIPATED OIL PRODUCTION SHARING AGREEMENT. SABAH SHELL HAS 4500 SQUARE MILE CONCESSION OF WHICH 15 PERCENT WITHIN THREE MILE TERRITORIAL WATERS OF SABAH, THUS SABAH PARTICIPATION IN AGREEMENT.

3. OIL PRODUCTION WILL BEGIN 1975 WITH FIRST SHIPMENTS MIDDLE THAT YEAR. SHELL OFFICIAL DECLINED SPECULATE POTENTIAL YIELD. HOWEVER, SHELL TERMINAL ON LABUAN ISLAND FOR ITS CONCESSION INITIALLY WILL HAVE CAPACITY HANDLE 30,000 BBLs PER DAY RISING TO CAPACITY 150,000 BBLs DAILY. FIRST OIL STRIKE OFF SABAH MADE SEPT. 71 AT ERB-WEST AND SECOND STRIKE DEC. 72 AT SAMARAN, 30 MILES OFF WEST COAST SABAH.

4. MOST OF OIL WILL BE EXPORTED BECAUSE MORE ECONOMICALLY PROFITABLE DUE LOW SULPHUR CONTENT. SABAH BECOMES SECOND STATE PRODUCING OIL; OTHER IS SARAWAK, CURRENTLY PRODUCING 97,000 BBLs PER DAY.

5. THE OTHER OIL PRODUCTION SHARING AGREEMENTS SIGNED THIS YEAR ARE WITH SABAH TEISEKI, OCEANIC EXPLORATION, AND CONSORTIUM OF THREE COMPANIES--CONTINENTAL, BROKEN HILL PROPRIETARY, AND EL PASO.

6. COMMENT: LENGTH AND DIFFICULTY OF NEGOTIATIONS BETWEEN SHELL AND GOM PROBABLY ACCOUNT FOR PRIMARY INDUSTRIES MINISTER DATUK HAJI TAIB MAHMUD SAYING IN ARTICLE, QUOTE, ALTHOUGH NEGOTIATIONS TOOK A LONG TIME, THE FACT THAT THE AGREEMENT HAS BEEN SIGNED SHOWS THERE WAS GOODWILL ON BOTH SIDES. UNQUOTE. IN OPENING SPEECH TODAY BEFORE ECAFE CONFERENCE ON GEOLOGY AND MINERAL RESOURCES DEVELOPMENT, MINISTER TAIB DESCRIBED PRODUCTION SHARING AGREEMENT AS BEST WAY FOR MALAYSIA CONTROL DEVELOPMENT OIL AND GAS RESOURCES AND PROVIDES BEST ASSURANCE OF AVOIDING DISPUTES OVER CONTROL OF MINERALS EXPLOITATION. ALSO EMPHASIZED THAT GOM WILL CONTINUE RELY ON PRIVATE COMPANIES TO DEVELOP OIL, GAS, AND MINERAL RESOURCES. EMBASSY EXPECTS ESSO AND REMAINING THREE CONCESSIONAIRES WILL SIGN PRODUCTION SHARING AGREEMENT SHORTLY.

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